

EnergyPlus Certified for U.S. Tax Deduction!!

As of June 23, 2006, EnergyPlus was certified as being *Qualified Computer Software for Calculating Energy Savings for Purposes of the Energy-Efficient Commercial Building Tax Deduction under Internal Revenue Code §179D*.

Background

On August 8, 2005, President Bush signed into the law the Energy Policy Act of 2005, which provide a variety of tax incentives for homeowners, businesses, and manufacturers for the purchase of energy efficient equipment and buildings.

The Department of the Treasury amended tax form 1040 to include a line for energy tax credits and has issued regulations specifying which energy efficiency equipment and improvements qualify for tax credits. The IRS recently released interim guidelines pertaining to the deduction for energy-efficient commercial buildings under Section 179D of the Tax Code. Specifically, the interim guidelines address the process by which a taxpayer obtains certification that installed energy-efficient property qualifies under Section 179D for the full deduction, and establish the total annual energy savings required for obtaining a partial deduction. The interim guidelines also provide information about the software programs that must be used in calculating power and energy expenditures.

Qualifying Energy-Efficient Commercial Building Property -- Potential Deductions

Section 179D provides commercial building owners and leaseholders with a deduction for implementing energy-efficient commercial building property in their buildings between December 31, 2005, and January 1, 2008. The deduction is available whether the respective space is new construction or previously existed and applies in the year in which the energy-saving property was made ready for its intended use.

As defined in the Tax Code, "energy efficient commercial building property" is property:

- (a) with respect to which depreciation (or amortization) is allowable;
- (b) installed in a building located in the United States and within the scope of Standard 90.1-2001 of American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America; and
- (c) installed as part of the interior lighting systems, heating, cooling, ventilation and hot water systems, or as part of the building envelope. Further, the installed interior lighting, heating, cooling, ventilation, hot water systems and building envelope must either reduce the total annual energy and power costs by fifty percent (50%) or more, or be part of a taxpayer's overall plan, which includes the subsequent installation of the same, and which will reduce the total annual energy and power costs by fifty percent (50%) or more, as compared with a "Reference Building," which is compliant with the minimum requirements of Standard 90.1-2001. For taxpayers meeting this threshold, the maximum deduction available to them is \$1.80 per square foot, less the aggregate amount of the Section 179D deductions allowed with respect to the building for all prior taxable years.

Section 179D also provides for a partially qualifying commercial property deduction, which applies to property that would otherwise qualify as energy-efficient commercial building property but results in reductions in the total annual energy and power costs of less than fifty percent (50%) but greater than or equal to sixteen and two-thirds percent (16.66%). For taxpayers meeting this threshold, the maximum deduction available to them is \$0.60 per square foot, less the aggregate amount of the Section 179D deductions allowed with respect to the building for all prior taxable

years. Section 179D also provides interim guidelines encouraging and providing a deduction for improvements made to lighting systems.

Certification of Qualified Property

Section 179D requires that, before a taxpayer may claim a deduction, the property must be certified as energy-efficient commercial building property by a qualified individual. The requirements of a qualified individual include that the person may not be related to the taxpayer and must be an engineer or contractor that is properly licensed in the jurisdiction where the building is located. The certification does not need to be attached to the taxpayer's tax return, but taxpayers are required to maintain books and records that would satisfy investigation into the applicability of the deduction.

Approved Software Programs

Section 179D requires that certain software programs be used to identify energy expenditures for the purposes of the deduction. The Department of Energy has established a public list of software, which may be viewed at http://www.eere.energy.gov/buildings/info/tax_credit_2006.html

Important Links

http://www.irs.gov/irb/2006-26_IRB/ar11.html

Complete text of Internal Revenue Bulletin: 2006-26, dated June 26, 2006,
Notice 2006-52, *Deduction for Energy Efficient Commercial Buildings*

<http://www.irs.gov/pub/irs-drop/n-06-52.pdf>

IRS document that spells out details of the deduction (U.S. Internal Revenue Service website)

http://www.eere.energy.gov/buildings/info/qualified_software/energyplus.html

List of EnergyPlus qualifications (U.S. DOE website)

http://www.eere.energy.gov/buildings/info/qualified_software/

List of qualified software (U.S. DOE website) – right now this list only includes EnergyPlus and TRACE 700

http://www.eere.energy.gov/buildings/info/tax_credit_2006.html

List of tax incentives for energy-efficient buildings and products (U.S. DOE website)

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